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SUBJECT: ENERGY: IEA/SLT REPORT ON JAPAN

FOR COPENHAGEN PASS FOLLOWING REPORT ON JAPAN TO
MR. B. DAN NIELSEN, MINISTRY OF FOREIGN AFFAIRS FROM
RAICHT.

FOR OECD PARIS: PASS FOLLOWING REPORT ON JAPAN
TO MR. K. YOKOBORI, IEA SECRETARIAT FROM RAICHT.

FOLLOWING IS A SUGGESTED REVISION OF YOUR DRAFT REPORT
ON JAPAN'S ENERGY PROGRAM WHICH RETAINS SUBSTANCE OF
BUT MAKES STYLISTIC AND FORMAT CHANGES. I WILL BE GRATEFUL
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IF YOU CAN CONFIRM ACCEPTANCE OF REVISION TO SECRETARIAT.
IF YOU HAVE MAJOR SUBSTANTIVE PROBLEMS PLEASE TELEPHONE
ME IN WASHINGTON.

REDUCED DEPENDENCE REVIEW: REPORT ON JAPAN

A) STATUS OF ENERGY BALANCES. JAPAN ESTIMATES NET OIL
IMPORTS WILL INCREASE FROM 249.2 MTOE IN 1975 TO 415.0
MTOE IN 1985. THIS PROJECTION ASSUMES AN INCREASE IN
TOTAL PRIMARY ENERGY CONSUMPTION FROM 346.2 MTOE IN 1975

TO 676 MTOE IN 1985.

ENERGY BALANCES ASSUME A GROWTH IN THE REQUIREMENTS OF 6.9 PERCENT ANNUALLY, (GDP GROWTH OF 6.0 PERCENT), A MAJOR INCREASE IN GAS AND COAL IMPORTS, AND A SIGNIFICANT EXPANSION OF NUCLEAR-POWERED ELECTRICITY.

ENERGY BALANCES SUBMITTED ARE GOVERNMENT FORECASTS RATHER THAN NATIONAL OBJECTIVES. THE BASIC DIRECTION OF ENERGY POLICY WAS ADOPTED BY THE JAPANESE GOVERNMENT IN DECEMBER 1975 THOUGH SUCH A POLICY WAS NOT SUBMITTED TO THE DIET FOR APPROVAL. SUBSEQUENT TO ADOPTION OF THIS POLICY, JAPAN HAS REVISED UPWARDS NET OIL IMPORT PROJECTIONS BY 52.7 MTOE. WHILE PROJECTIONS ARE NOT STATUTORILY ENFORCEABLE, THE GOVERNMENT BELIEVES THE LATEST BALANCES CAN BE ACHIEVED BY CLOSE CONSULTATION AND PERSUASION OF INDUSTRIES AND UTILITIES.

B) ADEQUACY OF SUPPLY/CONSERVATION MEASURES. THE OBJECTIVE OF THE JAPANESE ENERGY POLICY IS CONSONANT WITH THE IEA OBJECTIVE OF REDUCING DEPENDENCE ON IMPORTED OIL. NEVERTHELESS, FULL REALIZATION BY 1985 OF ENERGY BALANCES SUBMITTED WILL INCREASE JAPAN'S ABSOLUTE DEPENDENCE ON IMPORTED OIL TO 415.0 MTOE BUT DECREASE JAPAN'S RELATIVE DEPENDENCE ON IMPORTED OIL FROM 77 PERCENT IN 1975 TO 62 PERCENT IN 1985. THE LEVEL OF IEA DEPENDENCE LIMITED OFFICIAL USE
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ON IMPORTED OIL BY 1985 WILL BE SIGNIFICANTLY AFFECTED BY JAPAN'S ENERGY POLICIES.

ACHIEVEMENT OF ENERGY BALANCE SUBMITTED DEPENDS ON THREE CRITICAL ELEMENTS (A) LARGE INCREASE IN NUCLEAR-POWERED ELECTRICITY, (B) SIGNIFICANT INCREASE IN GAS IMPORTS AND (C) CONSERVATION PROGRAM.

1. NUCLEAR PROGRAM. THE JAPANESE GOVERNMENT AIMS AT ACHIEVING AN INSTALLED CAPACITY OF 49 GW IN 1985 (68.0 MTOE). OF THIS TOTAL, 7.4 GW ARE IN OPERATION, 9.7 GW UNDER CONSTRUCTION, AND CONSTRUCTION WILL BEGIN SHORTLY IN AN ADDITIONAL 3.7 GW. AN ADDITIONAL 14.4 GW ARE NOW BEING CONSIDERED BY UTILITY COMPANIES AND WILL BE CONSTRUCTED ON ALREADY APPROVED SITES. THE REMAINING 14 GW ARE IN SERIOUS JEOPARDY AND WILL REQUIRE THE OPENING OF NEW SITES WHICH HAVE NOT YET BEEN DETERMINED. WHILE THE

JAPANESE GOVERNMENT CONTINUES TO MAINTAIN 49 GW AS A TARGET, AT LEAST 14 GW OR 18 MTOE WILL MOST LIKELY NOT BE IN OPERATION BY 1985, GIVEN THE LEAD TIME OF AT LEAST SEVEN YEARS NECESSARY FOR APPROVAL, SITING, CONSTRUCTION AND OPERATION OF SUCH PLANTS.

JAPAN PROVIDES SUBSIDIES DIRECTLY TO COMMUNITIES LOCATED WHERE NEW POWER STATIONS WILL BE BUILT AS AN INCENTIVE TO OVERCOME LOCAL SITING OPPOSITION.

IF DEMAND FOR ELECTRICITY REMAINS AS PROJECTED BY THE GOVERNMENT, JAPAN PLANS TO MAKE UP THE NUCLEAR SHORTFALL BY INCREASING OIL IMPORTS.

THE SUPPLY FOR URANIUM FUEL FOR REACTORS HAS BEEN ASSURED THROUGH 1985 AND JAPAN IS NOW CONSTRUCTING AN EXPERIMENTAL REPROCESSING PLANT. REALIZATION OF JAPANESE NUCLEAR DEVELOPMENT THROUGH 1985 PREDICATES THE AVAILABILITY OF LIMITED OFFICIAL USE
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REPROCESSING IN JAPAN OR ELSEWHERE.

2. GAS IMPORTS. AS PART OF AN ACTIVE INTERFUEL SUBSTITUTION STRATEGY, JAPAN PLANS GREATER USE OF GAS AS A READY SUBSTITUTE FOR IMPORTED OIL. GAS NOW PROVIDES LESS THAN 3 PERCENT OF TPE (9.4 MTOE IN 1975) AND IS PROJECTED TO ACCOUNT FOR MORE THAN 9 PERCENT OF TPE BY 1985 (65.5 MTOE). MOST OF THIS PROJECTED INCREASE WILL RESULT FROM LNG IMPORTS (56.0 MTOE). LONG-TERM CONTRACTS HAVE BEEN SIGNED FOR APPROXIMATELY 15-16 MTOE WITH ABU DHABI, INDONESIA, BRUNEI, AND THE UNITED STATES. SUCH SUPPLIES WILL MOST LIKELY BE AVAILABLE BY 1985.

THERE IS SIGNIFICANT DOUBT, HOWEVER, ABOUT THE AVAILABILITY OF THE OTHER 40 MTOE OF LNG ENVISAGED. THERE ARE SUFFICIENT QUANTITIES OF GAS CAPPED OR FLARED THROUGHOUT THE WORLD WHICH COULD BE CONVERTED TO LNG AND EXPORTED IF THE ECONOMICS PROVED ATTRACTIVE TO THE PRODUCING AND CONSUMING COUNTRIES. SINCE THE CONSTRUCTION OF A LIQUEFACTION PLANT TAKES APPROXIMATELY FIVE YEARS, AND THE TECHNOLOGY HAS NOT BEEN FULLY DEVELOPED, JAPAN MUST AS-SURE LONG-TERM CONTRACTS ARE SUCCESSFULLY NEGOTIATED AND LIQUEFACTION PLANTS ACTUALLY BUILT, SOME 40 MTOE OF LNG ARE AT RISK.

3. CONSERVATION. TOTAL PRIMARY ENERGY REQUIREMENTS ARE EXPECTED TO INCREASE FROM 346 MTOE IN 1975 TO 676 MTOE IN 1985, AN ANNUAL GROWTH OF 6.9 PERCENT. AN ENERGY ELASTICITY OF MORE THAN ONE IS ENVISAGED THUS CAUSING THE TPE/GDP RATIO TO INCREASE FROM 1.35 TO 1.40, REFLECTING NO SIGNIFICANT CONSERVATION SAVINGS DESPITE THE LARGE INCREASE IN ENERGY USE.
BY JAPANESE STANDARDS A 6 PERCENT GDP GROWTH RATE IS QUITE MODEST AND TPE PER CAPITA WILL AMOUNT TO ONLY 5.45 BY 1985. NEVERTHELESS, JAPAN SHOULD MAKE FULLER USE OF THE HIGH RATE OF ECONOMIC GROWTH TO INTRODUCE MORE ENERGY

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EFFICIENT EQUIPMENT AND TECHNOLOGY. OTHERWISE, OIL MIGHT NOT BE AVAILABLE AT REASONABLE COST TO PERMIT THE ECONOMIC GROWTH ENVISAGED.

THE RESIDENTIAL SECTOR LACKS SIGNIFICANT CONSERVATION MEASURES. THOUGH SPACE HEATING IS USED IN MOST HOMES, AND RETROFITTING IS DIFFICULT, INSULATION STANDARDS SHOULD BE SUBSTANTIALLY IMPROVED ESPECIALLY AS MORE PEOPLE BUY DWELLINGS WITH CENTRAL HEATING AND AIR-CONDITIONING.

THE JAPANESE GOVERNMENT MAINTAINS A VERY CLOSE RELATIONSHIP WITH INDUSTRY AND THROUGH MORAL SUASION OR INCENTIVES ATTEMPTS TO ENCOURAGE THE RESTRUCTURING OF INDUSTRY, THE ADOPTION OF ENERGY EFFICIENT EQUIPMENT AND TECHNOLOGY, AND THE RELOCATION OF ENERGY-INTENSIVE INDUSTRY OVERSEAS. A COMBINATION AND REINFORCEMENT OF SUCH EFFORTS IS ESSENTIAL AS ANY MAJOR CONSERVATION SAVINGS WILL COME FROM THIS SECTOR, ESTIMATED TO CONSUME 63 PERCENT OF TPE IN 1985.

4. OTHER ENERGY SOURCES. COAL PRODUCTION IN JAPAN IS PROJECTED TO SLIGHTLY INCREASE FROM 12.3 MTOE TO 13.3 MTOE IN 1985. COAL PRODUCTION IS UNECONOMICAL AND REQUIRES SUBSIDIES TO REMAIN COMMERCIALY COMPETITIVE.

HYDRO POWER WILL INCREASE FROM 18 MTOE TO 26 MTOE WHILE OIL AND GAS PRODUCTION ARE PROJECTED AT 3.8 MTOE AND 9.5 MTOE BY 1985.

COAL IMPORTS WILL INCREASE FROM 47.9 MTOE TO 80 MTOE IN 1985, THOUGH ONLY 10-15 MTOE OF THIS TOTAL WILL BE STEAM COAL FOR ELECTRICITY GENERATION. INCREASED COAL IMPORTS ARE CONSTRAINED BY IMPORT RESTRICTIONS, ENVIRONMENTAL POLICIES, CONFIGURATION OF EXISTING POWER STATIONS AND THE HIGH COST OF TRANSPORTATION. RECENT STUDIES
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IN JAPAN INDICATE THAT AN ELECTRICAL PLANT FUELED BY LOW-SULFUR COAL CAN--UNDER CERTAIN CIRCUMSTANCES--MEET ENVIRONMENTAL REQUIREMENTS AND BE COMPETITIVE WITH AN OIL-FIRED PLANT.

5. ENERGY POLICY AND ENVIRONMENT PROTECTION. WHILE RECOGNIZING THAT ENVIRONMENTAL PROTECTION MUST HAVE A HIGH PRIORITY IN JAPAN, IT DOES APPEAR THAT ENVIRONMENTAL

MEASURES HAVE A NEGATIVE IMPACT ON THE POSSIBILITIES OF RATIONAL USE OF ENERGY, A RATIONAL FUEL SWITCHING POLICY AND INTENSIVE EXPLORATION EFFORTS. THEREFORE THE ENVIRONMENTAL POLICY APPEARS AS A CONSTRAINT TO THE FULFILLMENT OF EXISTING ENERGY PROJECTIONS AND IT MAY BE A MORE SERIOUS CONSTRAINT IN ACHIEVING A HIGHER DEGREE OF REDUCED DEPENDENCE ON IMPORTED OIL. THE JAPANESE GOVERNMENT SHOULD CONSIDER MEASURES TO ACCELERATE SUCH TECHNOLOGICAL DEVELOPMENT (AND TO DRAW ON THE EXPERIENCE OF OTHER IEA COUNTRIES) THAT WILL PERMIT ENERGY USE AND PRODUCTION WITHOUT CREATING CONFLICTS WITH ENVIRONMENT POLICY.

6. INTERFUEL SUBSTITUTION STRATEGY. JAPAN'S BASIC POLICY TOWARD USE OF VARIOUS FUELS TO GENERATE ELECTRICITY IS THAT THE MOST COST COMPETITIVE FUEL SHOULD BE USED BY UTILITIES. THERE IS NO STRONG CENTRAL CONTROL REGARDING THE CONSTRUCTION OF NEW POWER STATIONS THOUGH THE GOVERNMENT CAN URGE COMPANIES TO USE CERTAIN FUELS.

7. REVISION OF ENERGY BALANCES. THE SLT REVIEW CONCLUDED THEIR ENERGY DEMAND BALANCES COULD BE ACHIEVED THOUGH THIS WOULD REPRESENT NO NEW SIGNIFICANT CONSERVATION EFFORTS. ENERGY SUPPLY BALANCES WILL NOT BE ACHIEVED BY 1985 DUE TO A SIGNIFICANT SHORTFALL IN INSTALLED NUCLEAR CAPACITY (18 MTOE) AND LNG IMPORTS (40 MTOE). UNLESS THESE SHORTFALLS ARE OFFSET BY A STRONGER CONSERVATION PROGRAM OR INCREASED STEAM COAL IMPORTS, NET OIL IMPORTS COULD INCREASE BY 58 MTOE TO 473 MTOE BY LIMITED OFFICIAL USE
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1985.

C. SUPPLY/CONSERVATION MEASURES TO REINFORCE ENERGY PROJECTIONS SUBMITTED.

1 (A) CONSERVATION. INDUSTRY IS BY FAR THE MOST IMPORTANT SECTOR, YET THE ONLY MEASURES IMPLEMENTED SO FAR ARE BASED ON PERSUASION, INCENTIVES, INFORMATION, VOLUNTARY TARGETS AND CONSULTANT SERVICES. THE RESIDENTIAL AND COMMERCIAL SECTOR IS EXPECTED TO INCREASE ITS SHARE FROM 18.7 PERCENT IN 1975 TO 22.1 PERCENT, AN INCREASE OF CONSUMPTION OF 7.3 PERCENT P.A. TILL 1985, THIS FIGURE SHOULD BE SEEN IN LIGHT OF A LOW RATE OF GROWTH OF THE POPULATION.

ONE MAJOR DEFICIENCY OF THE CONSERVATION PROGRAMME IS THE LACK OF FUNDS TO PROVIDE INCENTIVES FOR ENERGY SAVING INVESTMENTS IN THE INDUSTRIAL AND RESIDENTIAL SECTORS. THIS IS DEMONSTRATED BY THE FACT THAT THE CONSERVATION BUDGET AMOUNTS TO ABOUT 45 MILLION DOLLARS, I.E. ONLY 0.5 PERCENT OF THE BUDGET AVAILABLE FOR ENERGY PRODUCTION,

WHICH WAS 9 BILLION DOLLARS IN 1975.

THE FOLLOWING SPECIFIC MEASURES ARE RECOMMENDED:

(1) INDUSTRY

- INCREASE TAXES ON FUEL OIL FOR INDUSTRY.
- STRENGTHEN RESTRUCTURING PROGRAMME TOWARD LESS ENERGY INTENSIVE INDUSTRIES BY PROVIDING ADDITIONAL INCENTIVES FOR ENERGY SAVING INVESTMENTS.

(2) RESIDENTIAL/DOMESTIC

- INTRODUCE MANDATORY BUILDING CODES WITH MINIMUM THERMAL AND LIGHTING EFFICIENCY FOR ALL NEW BUILDINGS.
- PROVIDE EFFECTIVE INCENTIVES FOR RETROFITTING EXISTING BUILDINGS.
- INCREASE TAXES ON FUEL OIL FOR RESIDENTIAL HEATING.

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(3) ENERGY SECTOR

- INTRODUCE PROGRAMMES AND PROVIDE INCENTIVES FOR DISTRICT HEATING AND THE COMBINED PRODUCTION OF HEAT AND POWER.

(B) INTERFUEL SUBSTITUTION. IT IS RECOMMENDED THAT THE GOVERNMENT CONSIDER THE FOLLOWING MEASURES:

- (1) ABOLISH IMPORT RESTRICTIONS ON STEAM COAL
- (2) DEVELOP A PROGRAM TO IMPROVE THE COAL-BURNING CAPACITY OF UTILITIES AND MAJOR INDUSTRIAL INSTALLATIONS
- (3) REVIEW ENVIRONMENTAL REGULATIONS TO FACILITATE THE USE OF COAL.
- (4) REINFORCE GOVERNMENT POLICY AGAINST THE USE OF OIL IN NEW BASELOAD GENERATING PLANTS.

(C) DEVELOPMENT OF SUPPLY. IT IS RECOMMENDED THAT THE GOVERNMENT TAKE MEASURES TO INTENSIFY EXPLORATION EFFORTS FOR OFFSHORE HYDROCARBONS.

(D) FALLBACK STRATEGY. AN ALTERNATIVE ENERGY STRATEGY OR FALLBACK POSITION SHOULD BE DEVELOPED. SUCH A STRATEGY SHOULD INCLUDE THE FOLLOWING ELEMENTS:

- (1) INTENSIFIED CONSERVATION, PRINCIPALLY IN THE RESIDENTIAL AND INDUSTRIAL SECTORS.
- (2) INCREASED EFFORTS TO UTILIZE IMPORTED COAL FOR ELECTRICITY GENERATION.

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